



April 17, 2009

AGENDA ITEM 5

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Global Fixed Income Program Policy Revisions
- II. PROGRAM:** Global Fixed Income
- III. RECOMMENDATION** Recommend to the Investment Committee:
 - a. Approval of the Revised Statement of Investment Policy for Global Fixed Income Program
 - b. Approval of the Revised Statement of Investment Policy for Barclays Aggregate Program

IV. ANALYSIS:

Investment policies for different sectors within the Global Fixed Income Program and in the Barclays Aggregate Program were developed at different times, in different contexts, by different members of staff. As a result, certain stipulations of Foreign Debt Policy—which was formulated with emerging-market countries and their corporations in mind—unintentionally bar investment in the high-yield debt of sub-investment-grade corporations domiciled in very highly developed foreign countries, such as Great Britain and Germany. This unintended conflict came to light later as the Global Fixed Income Unit implemented its externally managed high-yield debt program.

Wilshire Associates' opinion letter is Attachment 1.

The recommended Statements of Investment Policy for the Global Fixed Income Program (Attachment 2) and for the Barclays Aggregate Program (Attachment 3) eliminate this unintended conflict so as to allow the Fund's high-yield corporate investment to extend abroad as originally envisioned. Specifically, the recommended, revised wording of policy allows investment in debt of sub-investment-grade corporations if the country in which they are domiciled and the

country in which the debt is issued have very high credit ratings—that is, AA- by S&P or Fitch or Aa3 by Moody's.

In addition, the Statement of Investment Policy for the Global Fixed Income Program revises policy governing the Externally Managed International Fixed Income Program so as to confine its investments in sub-investment-grade corporations to the same limits that will apply to the Fund's high-yield program. In short, the recommended Statements of Investment Policy will allow CalPERS fixed income investing to exploit attractive high-yield opportunities as originally planned, but at the same time will apply consistent limits to ensure that the Fund's high-yield securities are governed by the best legal structures and by highly reliable currency arrangements.

V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and, second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

There are no costs associated with this item.

Warren Trepeta
Senior Portfolio Manager
Global Fixed Income

Curtis D. Ishii
Senior Investment Officer
Global Fixed Income

Kenneth W. Marzion
Interim Chief Operating Investment Officer